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Exhibit 202

6L 7/2/97

NATIONAL ACCOUNTS MEMORANDUM

TO: J. Lang

SUBJECT: Wholesaler Development - F/U 5/21

RECEIVED
MAY 23 1997

J. J. LANG

FROM: C. R. Green

DATE: May 21, 1997

The attached organizational chart reflects the current state of affairs at our top 12 wholesalers. The industry continues it's downsizing with Cardinal/AmeriSource currently on the forefront. As the result, the organizations are in a state of flux as they change buyers and chief executives. Issues before us include:

- Participation in wholesaler programs
- Obstacles to our growth
- Future programs to participate in
- Strategic directions

With respect to the following:

PARTICIPATION IN WHOLESALER PROGRAMS

The top four wholesalers, Bergen Brunswig, McKesson, Cardinal, and AmeriSource all offer to us opportunities to participate in various programs.

- McKesson - We have participated in Valu Rite promotions, as well as the autoship to 1,400 pharmacies for the new RX items. This was most recently done during the launch of UNIPHYL® 600mg. McKesson also offers a Tradeshow and Management Conference which we participate in during the month of July. I have made requests to have a special pre-pack on the OTC side, as well as a prescription deal for their tradeshow. During our top-to-top last year, McKesson indicated that we an have opportunity to participate in their RDC (Regional Distribution Center). Ed Mahoney has completed an analysis of this and we are progressing with discussions with our next appointment being June 19.
- Bergen Brunswig has also offered to us multiple opportunities to participate in their programs. We have participated in their Good Neighborhood Pharmacy Program, their Autoship Program, and their Good Neighborhood Pharmacy TV and Radio Program in the past. Notably, last year we began to participate in the AccuSource Program which is tied to the independent pharmacy that has a Bergen computer in it. This provides opportunities to provide screen savers, glimmer buttons of our products tied to the competition, as well as information messages to the pharmacists about our products. We would anticipate continuing this program into 1997. We have also been approached to be a founding participant in a new Bergen Kiosk Program. This program will put a Kiosk into the independent pharmacy similar to the Cardinal Health Touch Program and would feature our products prominently. By being a founder of this program, we would be securing a first year exposure of our product at a nominal cost. As with McKesson, Bergen also has a Tradeshow and Management Conference that we participate in. Again, deals are needed both on the OTC and RX side to adequately participate in their tradeshow.
- Cardinal continues to grow and has a variety of programs. Currently, we are in discussions with Cardinal to participate in their Kiosk called Health Touch. The cost for participating in this program would be a flat \$10,000 for OTC products for a 60 day exposure. On the Rx side, they are looking for a 25% of the incremental sales growth or \$25,000 which ever is greater. This would give us a four month exposure. Cardinal also has Cardinal Choice and Rx Advantage Programs. These are driven by marketshare contracts which the vendor enters into

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with Cardinal. The vendor would agree to grant Cardinal a rebate on incremental sales. Such a contract was proposed for **MS CONTIN** when Kadian came out and management declined to participate at that time. It should be noted that Cardinal is working on a new program called Scriptline. This is basically a program designed by Cardinal to switch. It is based upon marketshare contracts that are in place. Each independent pharmacy would have an opportunity to override the switch program, but each independent pharmacy would also be reminded of an alternative drug that is under marketshare contract with Cardinal. As with Bergen and McKesson, Cardinal also offers a Tradeshow and Management Conference which we have participated in and will be participating in this year.

- AmeriSource does not offer the variety of programs that the above wholesalers offer. This is due to the fact that AmeriSource has chosen to be a decentralized wholesaler operating with five regional offices. While corporate does lie in Malvern, PA, Malvern simply provides direction and the final decision is made at the regional level. At this time, we are covering each of the regional offices directly and have had varied results based upon our relationship at corporate. Currently, AmeriSource does offer a Tradeshow and Management Conference and we have participated in both. The major issue with AmeriSource continues to be our 2% vendor chargeback policy.

The remaining wholesalers are single or dual house entities and do not offer the scope of programs that these major four players due. We have participated in various advertising books at a nominal cost, but this is only to build goodwill and has had limited impact upon our product movement.

OBSTACLES TO OUR GROWTH

Obstacles to our growth lie predominately with our reluctance to spend money on wholesaler programs. While many of the programs are difficult to tie to actual sales growth, they build a tremendous amount of goodwill with the wholesaler. Our participation in a variety of wholesaler programs with the launch of **OXYCONTIN** insured that every wholesaler distribution center would stock **OXYCONTIN**. Without programs designed by the wholesaler to move product at the retail level, the wholesaler is reluctant to stock their warehouse.

Programs that have been deemed by the wholesaler to move marketshare, such as marketshare driven contracts, have been viewed by Management as being too expensive. Marketshare contracts are developed to insure that we continue to enjoy the marketshare that we have and that we do not loose it to generics or competition. As previously indicated, wholesalers such as Cardinal are using these marketshare contracts as a foundation for other switch programs. Our continued reluctance to participate in marketshare contracts will impact upon us long term with our products being switched at the pharmacy level.

Foremost in the wholesalers mind when it comes to Purdue Frederick is our 2% vendor chargeback policy. Purdue Frederick continues to recoup 2% or the cash discount on vendor chargeback claims by the wholesaler. We are currently the only manufacturer to employ this practice. We placated AmeriSource with the post audit agreement for vendor chargeback. This was an agreement that allowed AmeriSource to spend their vendor chargeback claim when they submitted it as opposed when we approved it. This made the money available to AmeriSource on a faster basis and still allowed us to recoup our 2%. AmeriSource is now prepared to reopen this issue with the purpose of eliminating it.

Price change notification and EDI applications continue to be sore points with the wholesaler as well. The wholesaler is requesting a minimum of two weeks on price notification, ability to forward buy, and receipt of the change in an electronic format. Additional EDI applications such as invoicing, EFT, advance shipping notice, and long term vendor managed inventories are also needed.

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FUTURE PROGRAMS TO PARTICIPATE IN

The major three wholesalers; Bergen, McKesson, and Cardinal continue to offer new programs for our consideration. Currently, Bergen is offering a Kiosk Program similar to the Cardinal Health Touch Program. This program will feature both OTC and RX products prominently at the RX counter for their independent customers. We have agreed to participate as a founding Company for this program and for \$10,000 will have one of our products featured for a year. As previously indicated, Cardinal is also looking at advancing new programs with a program called Scriptline. This program will be driven by marketshare contracts and will prominently feature products that are under marketshare contract with Cardinal. This program will encourage the independent pharmacy to switch to a marketshare driven product. Finally, McKesson is offering a point of usage program at the hospital level. They have approached us to participate with SENOKOT® Unit Dose. This could force us to change the UPC code on the individual piece, but at this time it remains unclear. The Point of Use Program at McKesson is very similar to the Pixis Program at Cardinal where a unit dose dispenser is placed on each hospital floor. In Cardinal's case participating in their Pixis Program, they are seeking not only unit dose, but a unit dose package compatible to their Pixis dispensing unit.

STRATEGIC DIRECTION

Over 80% of the current drug wholesaler market is controlled by four players. McKesson, Bergen, Cardinal, and AmeriSource It is my suggestion that we should participate in programs that are relevant to these four customers. I would not like to neglect the remaining wholesale customers, but if we target programs that are conducive to these four companies, our programs will be conducive to the balance of the business. Our wholesaler trading partners are moving away from simply performing a distribution function. More and more they are becoming information vendors. They have captured information in terms of compliance, substitution, and patient demographics, that they wish to sell it to us. Most aggressive in this format is Cardinal with the variety of programs that they are currently offering. Our vendor chargeback policy of recouping the 2% is a very annoying policy to all of our trading partners and impacts negatively upon whatever we do. Consideration should be given to reviewing this policy with the intent of eventually eliminating it. Our reluctance to eliminate this 2% policy has prevented our participation in various programs at both Bergen and McKesson. In addition, Cardinal has begun to promote a vendor contract which specifically states that this 2% would not be charged, nor paid by Cardinal. Should Cardinal continue to increase in importance, we could lose control of our agenda at Cardinal. Cardinal will begin to control the vendor's agenda themselves. It is important that we move forward on cooperative fronts and show good faith before this happens. Elimination of our 2% policy would be one step forward.

Consideration of marketshare contracts is also a key to our continued relationships with the wholesaler. The wholesaler is prepared to offer us contracts that pay for incremental growth. They do not pay for existing business they only pay when the business is grown. While this cost might be excessive, it can help insure that our market does not erode in the face in either generic competition or a new competitor. I would suggest that we consider funding at least a test marketshare contract for one of our products, perhaps MS CONTIN. Finally, we need to help our wholesaler bring their products to market more efficiently. I would suggest that we begin an expansion of our EDI applications to include, but not limited to the following:

- Advance shipment notice
- Electronic fund transfer
- Vendor managed inventories
- Electronic invoicing.
- Price increase notification

Need to get done

Providing efficiencies to our wholesaler would also mean gaining efficiencies in our business.

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The drug wholesaler marketplace is rapidly changing. Consolidation is moving ahead at a torrid pace. Very shortly organizations such as NWDA will have limited membership. Even now, we begin to question participation in the NWDA Annual Meeting, as well as NWDA Marketplace. At this time, Cardinal has withdrawn from NWDA membership and has hinted that Bindley Western is the next to follow. Lacking an organization such as NWDA to address the multitude of wholesalers, we will need to address the wholesalers on an individual basis. At this time, our relationship with the top four wholesalers is very solid. Contacts there will facilitate us moving effortlessly through the organizations. However, management policies can restrict and will restrict what is made available to us. With wholesaler friendly policies from us, we can expect programs that will be friendly and profitable to our Company.

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Attachments (Wholesaler Organization Chart)

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